



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

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Comptroller

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March 26, 2010

Honorable Darlene Green, Comptroller
1200 Market Street, Room 311
St. Louis, MO 63103-2806

RE: Riverfront Gaming (Project #2010-04)

Honorable Ms. Green:

Enclosed is the Internal Audit Section's process review of the Comptroller's Office - Riverfront Gaming for the period of July 1, 2008 through June 30, 2009. The audit objectives were to determine if the Comptroller's Office effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Fieldwork was completed on December 7, 2009. Management's responses to the observations and recommendations noted in the report were received on March 24, 2010 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at 314-622-4723.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: John Zakibe, Deputy Comptroller



CITY OF ST. LOUIS

COMPTROLLER'S OFFICE

RIVERFRONT GAMING

PROCESS REVIEW

JULY 1, 2008 THROUGH JUNE 30, 2009

PROJECT #2010-04

DATE ISSUED: MARCH 26, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
PROCESS REVIEW
RIVERFRONT GAMING
JULY 1, 2008 THROUGH JUNE 30, 2009**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of Riverfront Gaming. The purpose was to determine if the Comptroller's Office effectively and efficiently manages risk to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

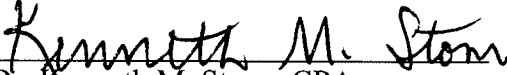
Conclusion

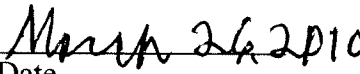
The opportunity exists for the Comptroller's Office to improve controls over the operational and fiscal activities. The following observation results from the review:

- Opportunity to update current procedures

This observation is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
PROCESS REVIEW
RIVERFRONT GAMING
JULY 1, 2008 THROUGH JUNE 30, 2009**

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INTRODUCTION

Background

Riverfront Gaming represents the revenues that are collected from the President and Lumiere casinos located on the City of St. Louis' riverfront and downtown areas. The Revised Statutes of Missouri (RSMo) govern the collection of admission taxes and gaming revenues as follows:

- RSMo 313.820 imposed an admission tax of two dollars for each person embarking on an excursion gambling boat with a ticket of admission. The home dock City or county is paid one dollar of the tax.
- RSMo 313.822 imposed a tax of 21% on adjusted gross receipts received from gambling games to be returned to the Commission. It also authorized the home dock City to receive 10% of the tax collections, only to be used in providing services necessary for the safety of the public visiting the excursion gambling boats.

Purpose

The purpose was to determine if the Comptroller's Office effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating internal controls over the operational and fiscal activities of Riverfront Gaming. The audit procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls, follow-ups on prior audit observations, and other procedures considered necessary were performed. The fieldwork was completed on December 7, 2009.

Exit Conference

An exit conference was conducted at the Comptroller's Office on March 11, 2010. The Comptroller's Office was represented by John Zakibe, Deputy Comptroller and Diane Bjorklund, Accounting Coordinator. The Internal Audit Section was represented by Craig Frazier, Auditor-in-charge and Dorothy Middleton, Auditor II.

INTRODUCTION

Management's Responses

Management's responses to the observation and recommendations noted in this report were received from the Comptroller's Office on March 24, 2010. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

There were no previously issued audit reports on Riverfront Gaming.

Summary of Current Observations

There were some control procedures in place that contributed to effective management of the fiscal and operational activities. These include, but were not limited to, the following:

- Funds were wired directly into the City's bank account
- The state requires the gambling establishments to submit a quarterly audit to the gaming commission and the state statutes require that revenues are audited annually by the state auditors
- Reports of tax collections are received by the Comptroller's Office from the Department of Revenue and the Missouri Gaming Commission monthly for verification
- The duties for receipting, depositing, and recording funds received are adequately segregated

However, the opportunity exists for the Comptroller's Office to improve internal controls over the operational and fiscal activities. The following observation resulted from the review:

- Opportunity to update current procedures.

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Update Current Procedures

The Comptroller's Office has written procedures which were dated November 2007. The procedures include two paragraphs detailing the processing steps for Riverfront Gaming revenues. The review of the steps and discussions with personnel revealed that performance standards and control procedures for all key functions and fiscal activities were not addressed. The following were noted:

- The control procedures noted below were not in writing and performance standards for timely and periodic reconciliations were not established. We learned that a gaming revenue spreadsheet is prepared based on the monthly receipt coding forms (RCFs) which are used to record revenues to the general ledger. This spreadsheet is reconcile to the general ledger and is reviewed by management annually.
- The Missouri Gaming Commission (MGC) submits a report of the daily tax collections to the Comptroller's and each calendar month. The Missouri Department of Revenue (DOR) also submits monthly reports. The DOR reports indicate collections received for a 30 day period for portions of two months. Both reports are compared and verified for accuracy. This procedure and follow-up procedures for resolving differences are not addressed in the current procedures.
- Monthly reports on admissions and gaming tax collections are submitted by the state. However, the written procedures indicated that monthly gross receipt reports are submitted and reconciled to the general ledger. This statement is incorrect and should be changed, because the report is on tax collections and the report is not reconciled to the general ledger.
- The written procedures stated that the *standard procedures* for the preparation of the RCFs are followed. However, it was observed that the *standard procedures*, which require the daily preparation of the RCFs for deposit, were not performed. Two of the three RCFs reviewed were prepared two to four business days after funds were wired to the City.
- The procedures do not reflect the current gaming gross receipts tax collected on gaming revenues. The current rate should be 21%, versus the 20% addressed in the written procedures.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Continued... ..

Written procedures provide the basis for the development of control procedures and performance standards to assist management in ensuring that all job functions are performed in accordance with management's goals and objectives. In addition, written policies and procedures provide a basis for training and cross training of new and current employees.

Due to time constraints and the current staffing level, the procedures have not been updated since November 2007.

The lack of updated written procedures increases the risk that control procedures will not be properly performed, may be over-ridden, and that appropriate performance standards will not be developed and properly communicated to current and new employees.

Recommendation

It is recommended that the management updates the policies and procedures to include performance standards and control procedures for all key functions and fiscal activities. This should include:

- Periodic reconciliations of revenues
- Preparation and review of internal and external reports
- Periodic management reviews of internal records and reconciliations
- Timely preparation of RCF's
- Updated tax rates

It is also recommended that the procedures be formally communicated to staff and the communication be documented.

Management's Responses

The current procedures manual has not been updated since 2007. We agree that the manual needs to be updated. Due to staffing shortages, furloughs, and work load, this was not made a priority. We will make an effort to make the procedures manual current. The changes will include:

- *Adding control procedures to include the process for the reconciliation of monthly RCF spreadsheets to the ledger*
- *Document the current process for verifying accuracy of the DOR reports and any reconciling activity*
- *Change the wording from "gross receipts" to "tax collections" in the manual*

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Continued... ..

- *Change “standard procedures” wording on RCF preparation procedures to “prepare RCF as soon as possible”*
- *Change the percentage for gaming in the manual from 20% to 21% to reflect the tax increase after the manual was written*

When this section of the manual is updated, all involved staff will be given the new section.